

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Export-Import Bank of the United States (Ex-Im Bank) was established by executive order of President Franklin D. Roosevelt in 1934 as a District of Columbia banking corporation. Ex-Im Bank was reincorporated as a U.S. government corporation by the Export-Import Bank Act of 1945. This act, which has been amended by Congress over the years, is the basic legal authority for Ex-Im Bank's operations. The most recent amendment was the Export-Import Bank Reauthorization Act of 2002 passed by the U.S. House of Representatives on June 5, 2002, and by the U.S. Senate on June 6, 2002. The act was signed into law by President George W. Bush on June 14, 2002. This act reauthorized Ex-Im Bank through September 30, 2006, and increases its financing capacity.

The purpose of Ex-Im Bank, as stated in the Export-Import Bank Act, as amended, is to facilitate U.S. exports by providing competitive export financing to U.S. exporters that are facing foreign competition for an export sale where the foreign competitor is offering officially supported financing and by providing export financing where the private market is unwilling or unable to offer this financing. All credits approved by Ex-Im Bank must meet the standard of reasonable assurance of repayment. By providing such financing, Ex-Im Bank is helping U.S. exporters to maintain or create U.S. jobs.

The other major legislation affecting Ex-Im Bank's financial operations is the Federal Credit Reform Act of 1990 (P.L. 101-508). The Federal Credit Reform Act requires U.S. government credit programs to estimate the subsidy cost of their credit program and to seek an appropriation from Congress to cover that cost. Loans and guarantees may not be committed unless sufficient appropriations are available to cover the calculated subsidy cost. A more detailed discussion is below.

SIGNIFICANT FACTORS WHICH DETERMINE FINANCIAL RESULTS AND CONDITION

The most significant factor which determines Ex-Im Bank's financial results and condition is changes in the risk level of the Bank's loan, guarantee and insurance portfolio, and the adjustment to the allowance for credit losses that must be made to reflect those changes in risk.

The level of risk of individual credits or groups of credits may change in an unpredictable manner as a result of international financial, economic, and political events. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

The Bank does make fixed-rate loan commitments prior to borrowing to fund the loans and takes the risk that it will not be able to borrow the funds at an interest rate below the rate charged on the credit. In the event that this occurs, a U.S. Treasury appropriation account is available to Ex-Im Bank to cover the loss.

The amount of new loans, guarantees and insurance that Ex-Im Bank commits each year is dependent on export sales won by U.S. exporters that need Ex-Im Bank's export credit support to win the export sales. This is in turn dependent on international economic and financial conditions, and on the competitiveness of U.S. products in world markets.

FINANCIAL RESULTS OF OPERATIONS

Changes in Assets

Cash increased by \$509 million in FY 2002 from \$7.1 billion at the end of FY 2001 to \$7.6 billion at the end of FY 2002. The increase is almost entirely due to a larger balance in Ex-Im Bank's credit reform financing account at the U.S. Treasury as a result of accrued interest on the funds in the account and collections of fees exceeding disbursements.

Ex-Im Bank's net loans receivable balance remained substantially unchanged at \$5.9 billion. However, gross loans receivable decreased from \$10.6 billion for FY 2001 to \$10.3 billion for FY 2002 while the allowance for loan losses also decreased from \$2.6 billion for FY 2001 to \$2.3 billion for FY 2002. A further discussion of the allowance for losses is below. Net receivables from subrogated claims decreased from \$2.1 billion at the end of FY 2001 to \$1.8 billion at the end of FY 2002. This decrease is primarily the result of an increase in the allowance for claim losses from \$1.6 billion at September 30, 2001, to \$1.9 billion at September 30, 2002. Accrued interest and fees receivable and other assets decreased from \$184 million at September 30, 2001, to \$145 million at September 30, 2002, primarily as a result of a \$42 million decrease in accrued interest receivable.

Changes in Liabilities

Total liabilities increased by \$3.1 billion, from \$16.0 billion at the end of FY 2001 to \$19.1 billion at September 30, 2002. This increase is almost entirely due to a \$3.1 billion increase in the balance payable to the U.S. Treasury, which is further explained below.

Ex-Im Bank borrows from the U.S. Treasury for its cash needs for loan disbursements and claim payments that are in excess of amounts appropriated for claim losses. Outstanding borrowings from the U.S. Treasury decreased from \$7.0 billion at September 30, 2001, to \$6.7 billion at September 30, 2002, as loan repayments and claim recoveries exceeded amounts needed for disbursement.

The allowance for off-balance sheet risk increased from \$6.4 billion at September 30, 2001, to \$7.1 billion at September 30, 2002, which is discussed in more detail below.

Amounts payable to the U.S. Treasury increased from \$557 million at the end of FY 2001 to \$3.6 billion at September 30, 2002. This increase resulted primarily from the re-estimate,

required under credit reform procedures, of the balances in the Ex-Im Bank's financing accounts at the U.S. Treasury needed to cover estimated losses.

Under credit reform procedures, U.S. government credit programs must estimate at the end of each fiscal year the amounts that are necessary to hold in their financing accounts to cover future losses under the outstanding balances of credits approved on or after October 1, 1992, when credit reform provisions became effective. These estimates take into account anticipated future interest earned on the balances in the financing accounts as well as the estimated amounts and timing of losses and recoveries. As of the end of FY 2002, Ex-Im Bank estimated that \$2.0 billion was needed in the Bank's financing accounts, and the unneeded balance of \$3.5 billion will be returned to the U.S. Treasury. As explained in Notes 2 and 16 to the financial statements, this estimate differs in significant ways from the calculation for the allowance for credit losses under accounting principles generally accepted in the United States of America (GAAP).

Changes in Equity

Total stockholders equity decreased from \$(642) million at the end of FY 2001 to \$(3.7) billion at the end of FY 2002. This decrease is primarily the result of being required to return to the U.S. Treasury the excess funds in the financing account, as described above. Additionally, Congress rescinded \$50 million of unobligated balances in the tied aid account that Ex-Im Bank then returned to the U.S. Treasury.

Net Income

Net income decreased from \$1.1 billion in FY 2001 to \$182 million in FY 2002. Net income was lower primarily as a result of a provision charged to FY 2002 income of \$726 million to increase the Bank's allowance for loan losses. Small increases in interest income and decreases in interest expense were largely offset by decreases in non-interest income and increases in non-interest expense.

Interest Income

For FY 2002 interest income totaled \$1,168 million, only slightly higher than the \$1,156 million of interest income in FY 2001. Interest accrued on loans and rescheduled claims rose from \$740 million in FY 2001 to \$827 million in FY 2002. The weighted average interest rate on Ex-Im Bank's performing loan and rescheduled claims portfolio dropped slightly from 6.83 percent at year-end FY 2001 to 6.38 percent at year-end FY 2002. The total average loan and rescheduled claims balance outstanding increased from \$12,382 million in FY 2001 to \$12,653 million in FY 2002. Additionally, Ex-Im Bank collected \$44 million more in interest on non-accruing loans in FY 2002 than in FY 2001.

Non-Interest Income

Income from commitment fees, exposure fees, guarantee and insurance fees and premiums, and other income totaled \$300 million in FY 2002, a slight decrease from the \$319 million in FY 2001. Most of the decrease was due to an \$11 million reduction in commitment fee accruals resulting from the lower average undisbursed balance in FY 2002 than in FY 2001.

Interest Expense

Interest expense, primarily on Ex-Im Bank's borrowings from the U.S. Treasury, totaled \$487 million in FY 2002, a \$61 million decrease from the \$548 million in FY 2001. This decrease was due to lower interest rates on new borrowings. The weighted average interest rate on the Bank's borrowings was 6.03 percent at year-end FY 2002 and 6.07 percent at year-end FY 2001.

Non-Interest Expense

Ex-Im Bank receives an appropriation from Congress each year to cover its administrative expenses. For FY 2002, Ex-Im Bank's administrative expenses, on an accrual basis, totaled \$56 million. Of that amount, \$37 million were for salaries and benefits. Ex-Im Bank's administrative expenses in FY 2001 totaled \$53 million, including \$36 million for salaries and benefits. Of Ex-Im Bank's 402 staff members at the end of FY 2002, 376 are located in Washington, D.C., with the remainder located in five regional offices. Staffing levels have remained almost constant for the last two fiscal years.

Other non-interest expenses amounted to \$17 million in FY 2002, an increase of \$9 million from the \$8 million incurred in FY 2001. Most of those related to expenses incurred in connection with loan workouts and reschedulings, and claim recoveries.

Provision for Credit and Claims Losses

Ex-Im Bank evaluates the collectibility of its loan and guarantee portfolio and establishes an allowance for credit and claims losses. The change in the allowance from one year to the next, adjusted for net write-offs, is the provision for losses that is charged to that year's income. This process is explained in detail below. For FY 2002, the provision for losses charged to income was \$726 million. In FY 2001, a reduction in the allowance for credit and claims losses from the previous year resulted in a \$195 million addition to income.

Claims

In FY 2002, Ex-Im Bank paid claims under its guarantee and insurance programs of \$443 million, as compared to claim payments of \$406 million in FY 2001.

AUTHORIZATIONS IN FY 2002

During FY 2002, Ex-Im Bank authorized \$10.1 billion of loans, guarantees and insurance, an increase of almost 10 percent over the \$9.2 billion authorized in FY 2001.

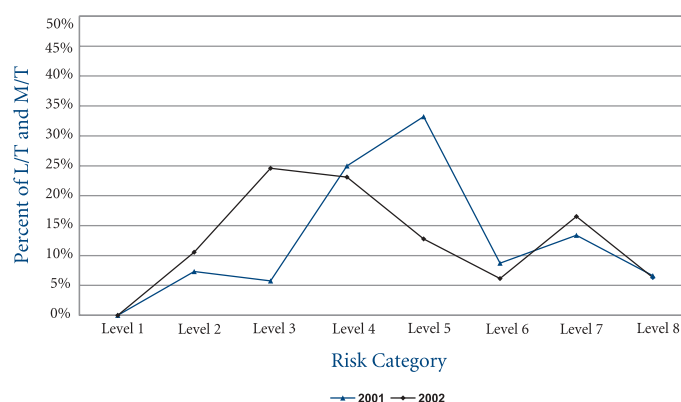
Ex-Im Bank Authorizations

	FY 2002	FY 2001
(in millions)	Authorizations	Authorizations
LONG-TERM		
Loans	\$295.6	\$857.8
Guarantees	6,180.2	4,736.3
Total Long-Term	6,475.8	5,594.1
MEDIUM-TERM		
Loans	-	13.4
Guarantees	543.1	704.5
Insurance	666.8	475.4
Total Medium-Term	1,209.9	1,193.3
SHORT-TERM		
Working Capital	684.8	660.2
Insurance	1,748.7	1,793.9
Total Short-Term	2,433.5	2,454.1
Total Authorizations	\$10,119.2	\$9,241.5

The increase in authorizations in FY 2002 is mostly attributable to an increase in Ex-Im Bank's authorizations in support of U.S. exports of commercial jet aircraft, which totaled \$2,571 million in FY 2001 and \$3,819 million in FY 2002.

RISK PROFILE OF FY 2002 AND FY 2001 AUTHORIZATIONS

The chart below shows the risk profile of Ex-Im Bank's authorizations in the past two fiscal years.



MEDIUM-AND LONG-TERM AUTHORIZATIONS BY AMOUNT AND RISK CATEGORY

(in millions)			
Level	FY 2002	FY 2001	Difference
Level 1	\$0.0	\$0.0	\$0.0
Level 2	\$800.5	\$471.9	\$328.6
Level 3	\$1,869.3	\$368.9	\$1,500.4
Level 4	\$1,755.3	\$1,611.7	\$146.3
Level 5	\$969.7	\$2,134.9	(\$1,165.2)
Level 6	\$467.4	\$560.6	(\$93.2)
Level 7	\$1,257.1	\$966.7	\$290.4
Level 8	\$481.1	\$426.4	\$54.7

Ex-Im Bank classifies credits into 11 risk categories, with level 1 being the lowest risk. Ex-Im Bank's support usually is not required for credits rated level 1, and Ex-Im Bank generally does not authorize new credits that would be risk-rated below level 8. On this scale, level 3 is approximately equivalent to Standard and Poors BBB, level 4 approximates BBB-, and level 5 approximates BB. The overall weighted-average-risk rating of FY 2002 commitments was 4.57, slightly less risky than the 4.97 for FY 2001. Fifty percent of Ex-Im Bank's medium- and long-term authorizations in FY 2002 fell in the level 3-to-5 range (BBB to BB). Twenty-one percent were rated level 7 or 8 (B or B-). The figures above do not include interest guaranteed on certain debt issues of Private Export Funding Corporation, which amounted to \$85 million in FY 2002 and \$246 million in FY 2001.

LOAN, GUARANTEE AND INSURANCE PORTFOLIO

Changes in the Risk Classification of Ex-Im Bank's Portfolio

At the end of FY 2002, Ex-Im Bank had a portfolio of \$58.1 billion of loans, guarantees, insurance and outstanding claims receivable, down slightly from the \$58.4 billion at the end of FY 2001.

Of the portfolio at September 30, 2002, 57 percent represents credits to public sector obligors or guarantors (40 percent to sovereign obligors or guarantors and 17 percent to public non-sovereign entities); 43 percent represents credits to private sector obligors.

Ex-Im Bank continuously monitors its portfolio, reporting monthly to the board of directors and management its risk profile and any significant changes in the portfolio. All credits are risk-rated as they are approved, and credits to obligors with larger total Ex-Im Bank exposure (\$20 million or more) are individually re-evaluated semiannually after approval. Smaller credits are re-evaluated semiannually by the market in which they are located. The overall weighted-average-risk rating of Ex-Im Bank's medium- and long-term portfolio was 5.68 as of September 30, 2002, slightly lower than the weighted-average-risk rating of 5.87 as of September 30, 2001.

Major Workouts

Ex-Im Bank is in the process of restructuring 14 major credits with an aggregate exposure totaling \$1.9 billion. These credits supported the export of U.S. products and services to projects in Indonesia, Mexico, India, Argentina, Brazil and Pakistan. All of these companies have other lenders with whom Ex-Im Bank is participating in the restructuring.

The four largest restructurings are Paiton Energy Company and Jawa Power Company, both power generation companies located in Indonesia; Uch Power Company, a power generation company located in Pakistan; and Asia Pulp and Paper, an Indonesian pulp and paper manufacturing company.

Paris Club Activities in FY 2002

The Paris Club is a group of government creditors that meets periodically in Paris to consider rescheduling their loans to certain debtor countries that are unable to service their debts. During FY 2002, Ex-Im Bank signed and implemented bilateral agreements to provide public sector debt relief in the form of debt forgiveness and/or debt rescheduling to 14 countries. In FY 2001, 10 countries either received debt forgiveness or debt rescheduling.

PAYMENTS RESCHEDULED THROUGH PARIS CLUB BILATERAL AGREEMENTS FY 2002 AND FY 2001

(in thousands)					
Country	FY 2002		Country	FY 2001	
	Debt Forgiveness	Debt Rescheduled		Debt Forgiveness	Debt Rescheduled
Cameroon	\$5,296	\$213	Central African Republic	\$355	\$530
Ecuador	-	9,748	Guyana	1,098	2,744
Gabon	-	14,609	Honduras	232	179
Ghana	-	2,622	Indonesia	-	146,727
Guinea	1	-	Kenya	-	13,228
Honduras	464	345	Nicaragua	-	2,024
Indonesia	-	145,504	Niger	376	353
Mozambique	48,156	-	Senegal	14	17
Niger	246	-	Tanzania	281	-
Pakistan	-	45,021	Zambia	1,432	2,227
Senegal	16	-			
Tanzania	21,011	-			
Uganda	178	-			
Ukraine		183,026			
Total	\$75,368	\$401,088		\$3,788	\$168,029

The FY 2002 agreements with Mozambique, Tanzania, and Uganda wrote-off all of Ex-Im Bank's public sector exposure in those countries.

SIGNIFICANT ACCOUNTING POLICIES

Under SFAS No. 5 Ex-Im Bank is required to make an estimate of the impairment of its loan, guarantee, and insurance portfolio and report that amount as an allowance for credit losses. To do this Ex-Im Bank uses methodology related to the methodology developed by OMB to risk-rate new U.S. government loans and guarantees. This is discussed in more detail below.

Under SFAS No. 114 Ex-Im Bank is required to measure impaired loans on the basis of the present value of expected

future cash flows discounted at the loan's effective interest rate or at the loan's observable market price. This requires a judgment by management of when a loan is impaired. Ex-Im Bank defines impaired credits as: (1) all delinquent (past due at least 90 days) loans and delinquent claims; (2) all rescheduled loans and rescheduled claims, and (3) all non-delinquent loans and claims risk rated level 9 or higher risk (see below for a more detailed discussion of how risk levels are determined).

Estimates of the level of risk in Ex-Im Bank's credit transactions are central to the application of both of the above accounting standards. The level of risk of credits may change in an unpredictable manner because of financial, economic, and political events impacting specific companies and countries. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

LEGAL PROCEEDINGS

In the ordinary course of business, Ex-Im Bank is a defendant, co-defendant or otherwise party to various litigation matters incidental to and typical of the businesses in which the agency is engaged. These includes civil actions and other matters in which Ex-Im Bank has been named, arising in the normal course of business out of its activities as a lending institution, insurer, and independent U.S. government agency. In the opinion of Ex-Im Bank's management, the ultimate resolution of these legal proceedings would not be likely to have a material adverse effect on the results of Ex-Im Bank's operations, financial condition or liquidity.

SIGNIFICANT FINANCIAL STATUTORY LIMITATIONS

The Bank has several significant financial limitations that are contained in the Export-Import Bank Act of 1945, as amended and in various appropriation acts. The following summarizes the status of those limitations as of September 30, 2002.

Program Appropriation

(in millions)	Available	Obligated	Balance
NON TIED-AID			
Carry over from Prior Year	\$189.8	\$188.6	\$1.2
Cancellations	118.6	118.6	0.0
FY 2002/05 Appropriation	727.3	431.1	296.2
Total Non Tied-Aid	\$1,035.7	\$738.3	\$297.4
TIED-AID			
Carry over from Prior Year	\$323.9	\$13.4	\$310.5
Cancellations	0.0	0.0	0.0
Rescissions	(50.0)	N/A	(50.0)
Total Tied-Aid	\$ 273.9	\$13.4	\$260.5

Administrative Expense Appropriation

(in millions)	Available	Obligated	Balance
Carry over from Prior-Year			
Agency for International Development (AID) Transfer	\$.7	\$.7	\$ 0.0
FY 2002 AID Transfer	.3	.2	.1
FY 2002 Appropriation	63.0	62.9	.1
Total	\$ 64.0	\$ 63.8	\$.2

Statutory Lending Authority

(in millions)	Available	Obligated	Balance
Total	\$ 80,000.0	\$58,117.6	\$21,882.4

OPERATIONS UNDER THE CREDIT REFORM ACT

Under the Federal Credit Reform Act of 1990 (2 USC 661), U.S. government lending agencies are required to estimate the cost of making loans and loan guarantees. The act was effective as of October 1, 1992.

Under credit reform, the U.S. government budgets for the present value of the estimated cost of credit programs, excluding administrative expenses. This cost, known as the "subsidy cost" is defined as the net present value of all the cash flows of the credits to and from the U.S. government. Agencies must establish cash flow estimates for expected defaults, fees and recoveries to estimate the subsidy cost as a part of the budget process and to determine the cost of individual transactions or groups of transactions. The Interagency Country Risk Assessment System, described below, is an integral part of this process. Congress must appropriate funds in advance to cover the subsidy cost. If sufficient appropriated funds are not available to cover the estimated subsidy cost of a transaction, the credit cannot be authorized.

The Interagency Country Risk Assessment System (ICRAS)

ICRAS was established by the Office of Management and Budget (OMB) to provide a framework for uniformly measuring the costs of the U.S. government's international credit programs across the various agencies that administer them. To operate this framework, OMB chairs an interagency working group composed of the agencies involved in international lending,¹ as well as the Departments of State and Treasury, the Federal Deposit Insurance Corporation, and the Federal Reserve Board. In addition, OMB consults annually with the Congressional Budget Office.

The ICRAS methodology determines both the risk levels for lending to sovereign governments as well as certain factors to be used in calculating the subsidy cost for transactions at the various risk levels.

One of OMB's key goals in developing this system was to pattern ICRAS after systems in the private sector. Therefore ICRAS adopts similar ratings and rating methodologies as the private rating agencies, such as Moody's, Standard & Poor's and Fitch IBCA.

Risk Ratings

The interagency group rates every country to which U.S. government agencies have outstanding loans or loan guarantees or are anticipating making new credits available. The interagency group has established 11 risk categories and has current risk ratings for 138 markets.

Like the private sector risk-rating agencies, ICRAS rates countries on the basis of economic and political/social variables. Each country receives two ratings: a sovereign-risk rating and a private-risk rating. In keeping with the principle of congruence to private ratings, throughout the rating process analysts use private sector ratings as one of the benchmarks for determining the ICRAS rating. When ICRAS ratings deviate

from either Moody's, S&P's, Fitch IBCA's or OECD ratings, the reasoning is substantiated in the ICRAS paper and is the subject of interagency discussion. This presumption serves as a key reference point throughout the ICRAS process.

The ratings are based, in general, on a country's (1) ability to make payments, as indicated by relevant economic factors, and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, A through C-, are roughly equivalent to "creditworthy" or "investment grade" private bond ratings. Three categories, F to F--, are for countries either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort. In between are categories reflecting various degrees of potential or actual payment difficulties.

ICRAS Risk Premia

In order to determine the cost associated with the risk of lending to a category of credits, OMB applies a risk premium to each category that reflects the expected losses.

OMB bases its calculations of the risk premia on investors' risk-return perceptions on international debt instruments. The premia were established using data from international debt markets that reflected changes in financial market conditions over the past six years. An extensive analysis was done of international lending rates so that the premia would most accurately reflect the market's evaluation of default risk.

Agencies apply these premia by comparing the present value cash flows discounted using a risk-free U.S. Treasury rate, against the present value of identical cash flows discounted by a risk-adjusted discount rate built from the risk-free U.S. Treasury rate plus the historical average spread for the risk category of the transaction under evaluation (the risk premium). The difference between these two present values is the present value of estimated defaults. This present value default

¹ The primary U.S. international lending agencies are the Export-Import Bank, the Defense Security Assistance Administration, the Department of Agriculture, the Overseas Private Investment Corporation and the U.S. Agency for International Development.

amount is spread over the maturity of the proposed transaction and is discounted using the standardized OMB Credit Subsidy Calculator.

FY 2002 Risk Premia

In 2002, OMB adjusted the risk premia for certain non-credit factors so that the revised risk premia reflect only estimates of probable credit losses. The risk premia were derived from the historical average interest rate differences or “spreads” between U.S. Treasury instruments and similar-term dollar-denominated sovereign bonds of similarly rated countries.

EX-IM BANK LOSS RESERVE METHODOLOGY

Ex-Im Bank sets aside an allowance for credit losses (loss reserves) for the inherent risk of nonpayment in the future from obligors under loan, claim, guarantee and insurance transactions.

Loss-Reserve Determination

The process by which Ex-Im Bank determines its loss reserves for each fiscal year involves assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the loss reserve based on the percentage of loss associated with the risk level assigned to the credit.

Ex-Im Bank has separately determined loss reserves for short-term insurance exposure and for the risk of exposure concentration, both of which are discussed below.

Sovereign Obligor Ratings

Sovereign risk is associated with an obligor that conveys the full faith and credit of the country. To rate sovereign obligors, Ex-Im Bank relies on the risk levels assigned to sovereign countries by ICRAS.

Non-Sovereign Obligor Ratings

Semiannually, Ex-Im Bank makes a case-by-case assessment of the risk level of the 350 largest exposure obligors in its non-sovereign portfolio. These transactions comprise 75 percent of Ex-Im Bank’s total non-sovereign portfolio. The risk assessment is based on two major factors: the credit risk of the obligor and its industry sector and the risk associated with the country where the obligor is legally domiciled as a business entity. Airlines and project finance cases are risk-rated based on risk-rating methodologies developed specifically by Ex-Im Bank for those types of transactions.

To assess the obligor risk, the non-sovereign obligors are divided into four categories: (1) obligors in workout status, (2) obligors rated by third-parties rating agencies, i.e., Standard & Poor’s and Moody’s, (3) obligors not rated but publicly traded on local exchanges, and (4) obligors neither rated nor publicly traded on local exchanges.

After the political and commercial risks of the transaction are assessed, the transaction is assigned a risk rating based on the standard ICRAS classification. The most important determinant of the risk rating is the sovereign-risk rating of the country in which the obligor or guarantor is located, although other credit enhancements such as the availability of liens and off-shore escrow accounts are also taken into account.

Non-sovereign transactions not specifically assessed and rated by Ex-Im Bank maintain the risk rating given to the transaction when it was authorized by Ex-Im Bank unless that risk rating is less risky than the current ICRAS rating for non-sovereign risk, in which case the current ICRAS rating becomes the new risk rating.

Loss-Percentage Determination

Each of the 11 risk levels are identified with a loss percentage to determine the overall allowance for credit losses. The loss percentage for each risk level is based on the risk premia model developed by OMB, discussed above, to calculate subsidy costs.

Allowance for Losses on Short-Term Insurance Exposure

Ex-Im Bank separately determines the allowance for losses for short-term insurance. The methodology assumes that repayment of a portion of the shipments outstanding at fiscal year end either may be already in default but not be reported by the insureds or will be defaulted and become a claim in the future. Under this methodology, the allowance for losses provided for short-term insurance exposure represent a combination of the percentage of claims paid to total shipments and the percentage of claims recovered to claims paid over the last 15 years as a percentage of current shipments outstanding.

Exposure Concentration Risk

In addition to the loss reserves based on an obligor's individual risk rating, Ex-Im Bank also provides additional loss reserves to account for the risk of exposure concentration. The additional loss reserves represent 5 percent of the combined exposure of five countries with the largest outstanding loan and claim exposures in Ex-Im Bank's portfolio. The 5 percent is a comprehensive factor that Ex-Im Bank believes is reasonable and sufficient to account for the risk of exposure concentration.

Undisbursed Balances

Ex-Im Bank's historical cancellation rate for authorized credits is 15 percent. Consequently, Ex-Im Bank makes a 15 percent downward adjustment for loss-reserve purposes to end-of-year undisbursed balances.

COMPARISON OF FY 2001 AND FY 2002 METHODOLOGIES

During FY 2002, Ex-Im Bank refined its methodology for calculating the allowance for losses on loans and claims receivable and the allowance for off-balance sheet risk. Previously Ex-Im Bank used OMB risk premia, which for FY 2001 represented a market-adjusted spread, to calculate the allowance for losses on loans and claims receivable and the allowance for off-balance sheet risk. In FY 2002, OMB significantly decreased the risk premia so that the revised risk premia reflects estimates of probable credit losses. In FY 2002, Ex-Im Bank determined allowances for impaired loans and claims receivable as well as off-balance sheet guarantees and insurance by determining the fair value of the loans receivable, claims receivable, guarantees and insurance. For non-impaired loans and claims receivable, Ex-Im Bank determined the allowance using the revised OMB risk premia. The impact on the FY 2002 financial statements of using the refined methodology is an increase in the loss reserves of approximately \$191.8 million. This refined methodology is a change in estimate, and prior-year amounts have not been restated.

Under the procedures used in FY 2002, Ex-Im Bank defines impaired credits as: (1) all delinquent (past due at least 90 days) loans and delinquent claims; (2) all rescheduled loans and rescheduled claims; and (3) all non-delinquent loans and claims risk rated level 9 or higher risk.

The loss reserve for FY 2002 loans, claims, guarantee and insurance commitments, is \$11,321 million which, when added to reserves of \$2,238 million for capitalized interest, results in a total loss reserve of \$13,559 million. This represents 23.3 percent of total exposure of \$58,118 million. This compares to the total loss reserve reported for September 30, 2001, for loans, claims receivable, and guarantee and insurance commitments of \$12,919 million including capitalized interest. This is 22.1 percent of total exposure of \$58,425 million as of September 30, 2001.

Of Ex-Im Bank's \$11,418 million in loan exposure (\$10,324 million outstanding and \$1,094 million undisbursed) and \$4,116 million of claim exposure as of September 30, 2002, \$8,464 million (\$8,397 million outstanding plus \$67 million undisbursed on impaired credits) is classified as impaired. Loss reserves on impaired credits are determined using the fair value method. This practice is consistent with FAS 114 guidance that requires impaired loans to be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair-market value of the collateral if the loan is collateral dependent. Loss reserves on the impaired portion of Ex-Im Bank's exposure are \$3,306 million for outstanding loans and claims plus a reserve of \$21 million for the undisbursed portion and \$2,100 reserve for capitalized interest, resulting in a total reserve for impaired credits of \$5,426 million.

The non-impaired balance of Ex-Im Bank's loans and claims exposure is \$7,070 million, which includes \$138 million of capitalized interest, as of September 30, 2002. The allowance for losses on this exposure is calculated using the credit loss estimate method. Consistent with industry practice, this is an estimate of the loss expected due to credit risk and does not include non-credit factors that are included in the fair-market value method. The loss reserve on non-impaired loans and claim exposure is \$1,178 million, including \$138 million in capitalized interest at September 30, 2002.

The allowance for losses on Ex-Im Bank's contingent liabilities for medium- and long-term guarantees and medium term insurance is determined using the fair-value method. The allowance for losses on this exposure is \$6,953 million in FY 2002 and was \$6,092 million in FY 2001. Exposure under medium- and long-term guarantees and medium term insurance was \$38.9 billion at September 30, 2002, and \$37.5 billion at September 30, 2001.

The methodology for determining the allowance for concentration risk and for short-term insurance exposure did not change.